

TEXAS DEPARTMENT OF AGRICULTURE

# Fiscal Year 2016 Internal Audit Annual Report

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Internal Audit Division



Texas Department of Agriculture | Commissioner Sid Miller  
November 2016



TEXAS DEPARTMENT OF AGRICULTURE  
COMMISSIONER SID MILLER

November 1, 2016

Governor's Office of Budget, Planning and Policy  
State Auditor's Office  
Legislative Budget Board  
Sunset Advisory Commission

Attached is the Texas Department of Agriculture's (TDA) Internal Audit Division annual report. This report provides information on the Internal Audit activities from the last reporting date of March 2016 thru the fiscal year end of September 2016. It is also submitted to meet the annual reporting requirement of the Texas Internal Auditing Act (Government Code, Chapter 2102.009 and Texas Government Code, Sections 2102.016 and 2102.0091).

TDA's Internal Audit Division went through a significant transition during FY 2016 with a complete turnover in staff. As always, the department as a whole provided the agency with a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes. Audit work completed during the last fiscal year focused on compliance with laws and regulations, efficiency and effectiveness, information security controls, and data integrity. Recommendations, when made, focused on strengthening controls, and enhancing the accountability, efficiency, and effectiveness of the agency's operations.

Please contact me at (512) 463-8251 if you need additional information.

Sincerely,

Zoi Kondis, CIA, CISA, CRMA  
Director of Internal Audit

Attachment

**Texas Department of Agriculture  
Fiscal Year 2015 Internal Audit Annual Report**

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**I. Compliance With Texas Government Code, Section 2102.015:  
Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Website**

House Bill 16 (83rd Legislature, Regular Session) amended the Internal Auditing Act by adding section 2102.016, which requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports on the agency's website within 30 days of approval. House Bill 16 also requires entities to update the web page to include: a) a detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and b) a summary of the actions taken to address concerns, if any, that are raised by the audit plan or annual report.

The Internal Audit Division will ensure compliance with House Bill 16 by posting the approved fiscal year 2017 audit plan and the fiscal year 2016 internal audit annual report to the agency's website within 30 days of their approval. These reports can be accessed by navigating from TDA's home page to About Agency, selecting TDA Divisions, and then selecting the Office of Internal Audit ([www.TexasAgriculture.gov/About/TDADivision/InternalAudit](http://www.TexasAgriculture.gov/About/TDADivision/InternalAudit)).

House Bill 16 also requires state agencies to update the posting to include a summary of actions taken by the agency to address any concerns that are raised by the audit plan or annual report. Corrective actions taken by TDA to address fiscal year 2016 internal audit recommendations are due throughout the remainder of fiscal year 2016, and therefore are not included in this report. Internal Audit systematically tracks all unresolved internal audit findings. Once the implementation due date has been reached, Internal Audit conducts periodic follow-up audit work to validate the implementation status of the audit findings and recommendations.

## II. Internal Audit Plan for Fiscal Year 2016

| Project Number | Activity   | Initial Objective(s)  | Status                  |
|----------------|--|---|-------------------------|
| 14.05          | Audit of Controls Over Accounts Payable Activities     | An internal audit of select accounts payable activities to determine if payments are processed efficiently, accurately, and in a timely manner in accordance with the 30-day prompt payment act.  | In Progress (Reporting) |
| 14.05          | Audit of Controls Over Purchasing Activities           | An internal audit of select purchasing activities to determine whether processes are performed efficiently and effectively, and are in compliance with state regulations.   | In Progress (Reporting) |
| 16.04          | Audit of the Community Development Block Grant Program | An internal audit of select program operations to determine whether they are in compliance with applicable rules and regulations, and to determine the effectiveness of controls over expenditures/payments, policies and procedures, and grant/contractual agreements. | In Progress (Fieldwork) |
| NA             | IT Governance  | Review processes in place to ensure IT supports the strategies and objectives of TDA to determine compliance with applicable rules and regulations, governance effectiveness, and IT performance and development frameworks.  | Not Started             |

### Deviations from the Fiscal Year 2016 Audit Plan

The 2016 Audit Plan was amended as necessary to accommodate staff turnover, new hire training, external audit and oversight activities, and changes to the agency's priorities and operations.

- The Audit of Controls over Purchasing and Accounts Payable Activities was in progress at year end and was carried forward to fiscal year 2017 for the reporting phase of the audit.
- CDBG audit was initiated in FY16 and scheduled to be completed in FY17.
- All other audit projects were postponed to accommodate the new staff.

### **III. Consulting Services and Non-Audit Services Completed**

The Internal Audit Division conducted one consultation during fiscal year 2016 that resulted in recommendations to management. TDA Internal Audit does not consider the results of the review public.

In addition to planned audits and consulting and non-audit services, the following administrative activities were also performed during fiscal year 2016:

- Facilitated External Audit Quality Assurance Review for completion by the end of FY16.
- Conducted the annual risk assessment using a risk-based methodology, which included gathering and analyzing information from questionnaires, internal control documents, and interviews.
- Developed the audit plan and prepared the Internal Audit Annual Report, as required by the Texas Internal Auditing Act.
- Tracked outstanding internal and external audit findings and recommendations, and trained agency staff to navigate, update implementation status, and upload supporting documentation using TeamCentral.
- Administered Internal Ethics and Fraud Hotline programs.
- Acted as liaison for external audits and oversight activities.

#### **IV. External Quality Assurance Review**

An external quality assurance review was performed in July and August 2016 by Honkamp, Krueger & Co, PC, CPAs and Business Consultants. The review assessed compliance with The Texas Internal Auditing Act (Tex. Gov't. Code Chapter 2102), the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing*, and U.S. General Accounting Office *Government Auditing Standards*. The final report was issued in September 1, 2016. We have provided a copy of the report executive summary in Appendix A and our next quality assurance review will be planned for 2019. The following opinion was reported to Executive Management:

“IIA Standards - Based on our work, the IAD generally conforms; however we did identify process enhancement opportunities included in appendix A to the report. Based on the information received and evaluated during this external quality assurance review, we have assigned the Texas Department of Agriculture (TDA) Internal Audit Division a rating of generally conforms with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*, Code of Ethics and Definition of Internal Auditing. The “generally confirms” rating, which is the highest of the three possible ratings means that an internal audit activity has a charter, policies, and processes that are judged to be in accordance with the standards in all material respects, but some opportunities for improvement may exist. “

“GAGAS – No conformance observations were identified. Based on the information received and evaluated during this external quality assurance review, we have assigned the TDA Internal Audit Division a rating of “pass” for GAGAS. The “pass” rating, which is the highest of the three possible GAGAS ratings, means that policies, procedures and practices are in place to implement the Standards and requirements necessary for ensuring independence, objectivity, and proficiency of the internal audit function.”

“TIAA requirements – Other than the observations related to IIA Standards, no other observations were identified during our work. Based on the information received and evaluated during this external quality assurance review, the TDA Internal Audit Division complies with the Texas Internal Auditing Act (Texas Government Code, Chapter 2102).”

The report also indicated that “ IAD is seen as one of the key cornerstones of Texas Department of Agriculture’s corporate governance, as evidenced by interviews, surveys, document reviews, and observations. “ And also stated “Texas Department of Agriculture’s IAD has demonstrated a commitment to quality, successful leadership practices, and maintaining an internal auditor’s mindset for professionalism. Our assessment noted Texas Department of Agriculture’s IAD has developed and implemented a methodology, a set of policies & procedures, and built a team of experienced auditors based upon achieving the department’s mandate. Evaluation of the internal audit processes and related audit work papers evidenced that Texas Department of Agriculture’s IAD takes this role seriously and provides value to the organization as expected. “

## V. Internal Audit Plan for Fiscal Year 2017

A risk-based methodology was used to prioritize audit coverage for fiscal year 2017 and ensure timely review of the highest risk areas. In addition, to fulfill the need to assess IT related risks, we documented key applications used by each of the Divisions and business units to better understand the application inventory, critical applications and project plans. Agency operations were analyzed based on multiple risk factors including: operating budget, involvement with grants and grant management, significant changes in organizational structure, information systems complexity, management controls, prior audits and findings, executive/legislative interest, strategic priority, and potential for fraud. Input from key senior management regarding high risk areas was also incorporated into the analysis. This information was then used to determine the likelihood and impact of select risk factors, and an overall risk score was developed.

Planned audit projects for fiscal year 2017 will continue to focus on the highest risk areas as identified through TDA's risk assessment process. Each audit will also consider tests of select general and application controls in accordance with state and agency information security standards.

### Internal Audit Plan for Fiscal Year 2017

| Audit Title  | Area / Initial Objective(s)   | Projected Hours |
|--|---|-----------------|
| <b>2016 Carryover Audits</b>   |   |                 |
| Audit of Controls Over Purchasing and Accounts Payable Activities B/         | Review select purchasing and accounts payable activities to determine the process efficiencies and effectiveness, and compliance with state regulations.  | 200             |
| Audit of the Community Development Block Grant Program B/                    | Review select program operations to determine compliance with applicable rules and regulations, and the effectiveness of controls over expenditures/payments, policies and procedures, and grant/contractual agreements.  | 900             |
| IT Governance Audit  | Review processes in place to ensure IT supports the strategies and objectives of TDA to determine compliance with applicable rules and regulations, governance effectiveness, and IT performance and development frameworks.  | 800             |
| <b>2017 Audits</b>   |   |                 |
| Audit of the Controls over HR & Payroll A/                                   | Review HR & Payroll process controls to determine compliance with applicable rules and regulations, and the effectiveness of system access, manual and automated controls over expenditures/payments, policies and procedures, and grant/contractual agreements.                          | 700             |
| Audit of Employee Lifecycle Management                                       | Review Employee Lifecycle Management processes to benchmark best practices to agency practices. Identify non-compliance to strategic operational policies and procedures including areas such as workforce planning, compensation and benefits, employee development and risk management. | 600             |
| Audit of the Legal Division's Processing of Inspection Administrative Orders | Review the Legal Division's Processing of Inspection Administrative Orders focusing on process improvement opportunities associated with cycle time, paperless initiative and records retention.  | 500             |



| Audit Title   | Area / Initial Objective(s) | Projected Hours |
|---|-----------------------------|-----------------|
| <b>Follow-up on Prior Audits</b>  |                             |                 |
| Assess the implementation status of corrective actions taken in response to prior internal and external audit findings and recommendations.   |                             | 300             |
| <b>Risk Assessment, Audit Plan and Annual Report</b>  |                             |                 |
| Prepare Risk Assessment, Internal Audit Plan and Internal Audit Annual Report.  |                             | 300             |
| <b>Fraud Hotline Admin, Consulting Services and Special Projects</b>  |                             |                 |
| Perform activities as requested by management throughout the year, as permitted by internal audit resources and the Texas Internal Audit Act. These activities may address governance, risk management, or control issues.  |                             | 450             |
| <b>External Audit Coordinator</b>   |                             |                 |
| Act as a liaison for external audit activities, providing a single point of contact for all audits of TDA by oversight entities. Internal Audit assists management in coordinating TDA and external auditor interactions to ensure both parties receive accurate and timely information and feedback. |                             | 150             |
| <b>Total</b>  |                             | <b>4,900</b>    |

A/ Addresses benefits proportionality

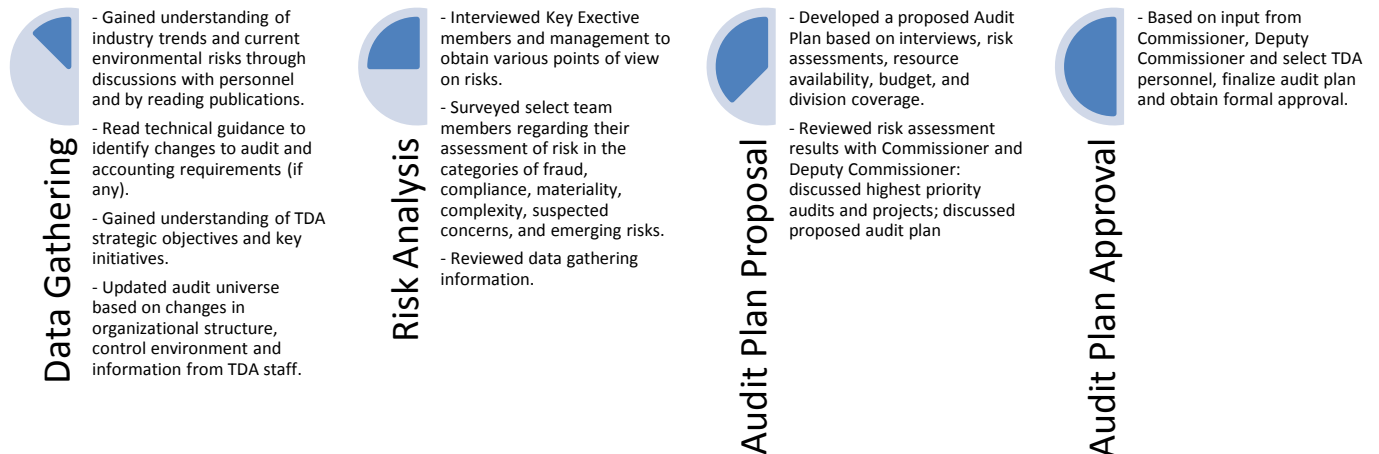
B/ Addresses Contract Management and other requirements of Senate Bill 20 (84<sup>th</sup> Legislature)

\* All Projections based on full staffing.

Additional areas that ranked high, which were not included in the fiscal year 2017 audit plan are listed below:

1. Financial Services, Accounting and Budget
2. IT, Systems and Technical Support
3. Procurement/Purchasing

## Risk Assessment Process



## **VI. External Audit Services Procured in Fiscal Year 2016**

The Internal Audit Division did not procure external audit services in fiscal year 2016.

## **VII. Reporting Suspected Fraud and Abuse**

TDA has taken the following actions to implement the requirements of:

- Fraud Reporting. General Appropriations Act, Article IX, Section 7.10 (82nd Legislature)

The TDA Fraud Prevention Program includes information about reporting to the state auditor money that may have been lost, misappropriated, or misused, or other fraudulent or unlawful conduct involving any money received from the state. TDA posted the following information on the Contact Us link on the home page of the agency's website:

### **Fraud Prevention Program**

The purpose of the TDA Fraud Prevention Program is to establish and coordinate an agency wide program to prevent, detect and investigate fraud, illegal use and abuse of state resources by TDA employees, vendors or contractors.

[Fraud@TexasAgriculture.gov](mailto:Fraud@TexasAgriculture.gov)

(512) 475-3423 or 1-866-5-FRAUD-4 (1-866-537-2834)

### **Report suspected fraud involving state funds to:**

[State Auditor's Office Website for Fraud Reporting](#)

Telephone hotline: 1-800-TX-AUDIT

- Reporting Requirements. Texas Government Code, Section 321.022

The TDA Fraud Prevention Program includes the requirements of this section. The Ethics Officer and Internal Audit, when necessary, are responsible for investigating all reported incidents of suspected or actual fraud, and illegal use or abuse of state resources. If an investigation concludes there is reasonable cause to believe inappropriate actions have occurred, a report is issued to the Deputy Commissioner. The Deputy Commissioner will report the reasons and basis for the belief to the State Auditor.

The Chief Ethics Officer and Internal Audit coordinate to ensure all State Auditor's Office (SAO) fraud website or hotline referrals are handled appropriately. The Chief Ethics Officer or Internal Audit provides the results of the investigation to SAO and works to resolve any issues. Internal Audit is provided a copy of the report for informational purposes and consideration of fraud during audit projects.

# Texas Department of Agriculture Fiscal Year 2015 Internal Audit Annual Report

## Appendix A



### Conformity Evaluation

Listed below is our overall evaluation of the IAD's conformity with these Standards and requirements:

**IIA Standards** – Based on our work, the IAD generally conforms; however, we did identify process enhancement opportunities included in appendix A to the report.

Based on the information received and evaluated during this external quality assurance review, we have assigned the Texas Department of Agriculture (TDA) Internal Audit Division generally conforms with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*, Code of Ethics and Definition of Internal Auditing. The “generally conforms” rating, which is the highest of the three possible IIA ratings, means that an internal audit activity has a charter, policies, and processes that are judged to be in accordance with the Standards in all material respects, but some opportunities for improvement may exist.

**GAGAS** – No conformance observations were identified.

Based on the information received and evaluated during this external quality assurance review, we have assigned the TDA Internal Audit Division a rating of “pass” for GAGAS. The “pass” rating, which is the highest of the three possible GAGAS ratings, means that policies, procedures and practices are in place to implement the Standards and requirements necessary for ensuring independence, objectivity, and proficiency of the internal audit function.

**TIAA requirements** – Other than the observations related to IIA Standards, no other observations were identified during our work.

Based on the information received and evaluated during this external quality assurance review, the TDA Internal Audit Division complies with the Texas Internal Auditing Act (Texas Government Code, Chapter 2102).

Definitions of the available ratings for IIA Standards and GAGAS are included in Appendix C to this report.

We appreciate the courtesy and cooperation extended to us by the internal audit director, internal audit staff, the Commissioner, Assistant Commissioner, and the senior managers who participated in the interview process. We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the internal audit department and its relationship with management.

Respectfully,

HONKAMP KRUEGER & CO., P.C.